

# FINANCIAL STATEMENTS



*Understanding Your Venture's  
Financial Situation*



VENTURE DESIGN  
TOOLKIT

IDEO



*Helps you answer:*

How much money are you making? / What are your costs? / What  
is your profit? / How much of your company do you own? / How  
much cash do you have to spend?



***Financial statements  
describe your business model  
in detail.***

***They **keep track of your money**  
past, present and future.***



# THERE ARE 3 KEY FINANCIAL STATEMENTS:

## INCOME STATEMENT\*



### ***Profit***

How much of what you earn are you keeping?

## BALANCE SHEET



### ***Ownership***

How much of your company do you own?

## CASH FLOW



### ***Free Cash***

How much cash can you spend?

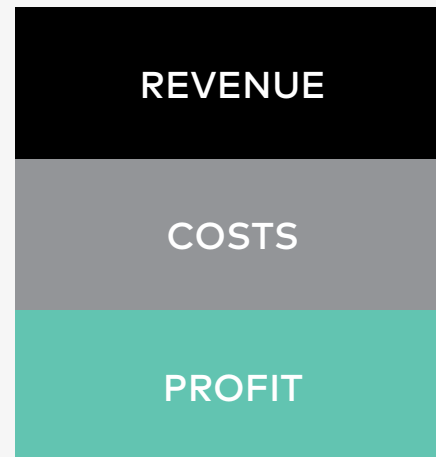
*\*also called Profit & Loss Statement, or P&L*

## INCOME STATEMENT



*The **income statement** is often called a **profit & loss statement** (or **P&L**). It shows how much profit you made: what your venture earned, what you spent, and what is left.*

### INCOME STATEMENT\*



How much money did we earn?  
Where does it come from?

Where does the money go?  
How much?

How much money are you keeping  
- or value are you cultivating?



# EXAMPLE:



## REVENUE

How much you earned,  
sales, top line

<b>CHIPOTLE MEXICAN GRILL, INC.</b> <b>CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME</b> <b>(in thousands, except per share data)</b>			
	Years ended December 31		
	2013	2012	2011
Revenue .....	\$ 3,214,591	\$ 2,731,224	\$ 2,269,548
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):			
Food, beverage and packaging .....	1,073,514	891,003	738,720
Labor .....	739,800	641,836	543,119
Occupancy .....	199,107	171,435	147,274
Other operating costs .....	347,401	286,610	251,208
General and administrative expenses .....	203,733	183,409	149,426
Depreciation and amortization .....	96,054	84,130	74,938
Pre-opening costs .....	15,511	11,909	8,495
Loss on disposal of assets .....	6,751	5,027	5,806
Total operating expenses .....	2,681,871	2,275,359	1,918,986
Income from operations .....	532,720	455,865	350,562
Interest and other income (expense), net .....	1,751	1,820	(857)
Income before income taxes .....	534,471	457,685	349,705
Provision for income taxes .....	(207,033)	(179,685)	(134,760)
Net income .....	\$ 327,438	\$ 278,000	\$ 214,945

SEE ALSO

DO: Build your P&L

# EXAMPLE:



## REVENUE

How much you earned,  
sales, top line

## COSTS

What you spent to make  
what you sell:

- Cost of Goods.....
- Wages .....
- Rent .....

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		2013	2012	2011
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# EXAMPLE:



## REVENUE

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sales, top line

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What you spent to make  
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- Cost of Goods.....
- Wages.....
- Rent .....

## PROFIT (OR MARGIN)

Calculate: Revenue - Costs =  
Gross Profit

Money left over after  
costs of making what you  
sold (but before other  
overhead, marketing, etc.)

Gross Profit / Revenue =  
Gross Margin (%)

## CHIPOTLE MEXICAN GRILL, INC.

### CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (in thousands, except per share data)

		Years ended December 31		
		2013	2012	2011
Revenue .....		\$ 3,214,591	\$ 2,731,224	\$ 2,269,548
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Food, beverage and packaging .....		1,073,514	891,003	738,720
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**CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**  
(in thousands, except per share data)

		Years ended December 31		
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Revenue		\$ 3,214,591	\$ 2,731,224	\$ 2,269,548
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
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Labor		739,800	641,836	543,119
Occupancy		199,107	171,435	147,274
Other operating costs		347,401	286,610	251,208
<b>SELLING, GENERAL &amp; ADMINISTRATIVE</b>	General and administrative expenses	203,733	183,409	149,426
<i>Marketing, sales and some other corporate overhead</i>	Depreciation and amortization	96,054	84,130	74,938
	Pre-opening costs	15,511	11,909	8,495
	Loss on disposal of assets	6,751	5,027	5,806
	Total operating expenses	2,681,871	2,275,359	1,918,986
	Income from operations	532,720	455,865	350,562
	Interest and other income (expense), net	1,751	1,820	(857)
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Income before income taxes .....	534,471	457,685	349,705
Provision for income taxes .....	(207,033)	(179,685)	(134,760)
<b>NET INCOME</b> ..... Net income .....	<u>\$ 327,438</u>	<u>\$ 278,000</u>	<u>\$ 214,945</u>
<i>Bottom line</i>			

SEE ALSO

DO: Build your P&L



*The **balance sheet** shows how much of the company you own.*

**BALANCE SHEET**



***Assets***

What does the company own?

***Liabilities***

What does the company owe others?

***Shareholder Equity***

What do shareholders own?



# EXAMPLE:

## CHIPOTLE MEXICAN GRILL, INC. CONSOLIDATED BALANCE SHEET (in thousands, except per share data)

		December 31	
		2013	2012
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 323,203	\$ 322,553	
Accounts receivable, net of allowance for doubtful accounts of \$1,190 and \$1,187 as of December 31, 2013 and 2012, respectively	24,016	16,800	
Inventory	13,044	11,096	
Current deferred tax asset	13,212	8,862	
Prepaid expenses and other current assets	34,204	27,378	
Income tax receivable	3,657	9,612	
Investments	254,971	150,306	
Total current assets	666,307	546,607	
Leasehold improvements, property and equipment, net	963,238	866,703	
Long term investments	313,863	190,868	
Other assets	43,933	42,550	
Goodwill	21,939	21,939	
Total assets	\$ 2,009,280	\$ 1,668,667	
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accounts payable	\$ 59,022	\$ 58,700	
Accrued payroll and benefits	67,195	71,731	
Accrued liabilities	73,011	56,421	
Total current liabilities	199,228	186,852	
Deferred rent	192,739	167,057	
Deferred income tax liability	55,434	48,947	
Other liabilities	23,591	19,885	
Total liabilities	470,992	422,741	
Shareholders' equity:			
Preferred stock, \$0.01 par value, 600,000 shares authorized, no shares issued as of December 31, 2013 and 2012, respectively	—	—	
Common stock \$0.01 par value, 230,000 shares authorized, and 35,245 and 34,912 shares issued as of December 31, 2013 and 2012, respectively	352	349	
Additional paid-in capital	919,840	816,612	
Treasury stock, at cost, 4,212 and 3,819 common shares at December 31, 2013 and 2012, respectively	(660,421)	(521,518)	
Accumulated other comprehensive income	1,620	1,024	
Retained earnings	1,276,897	949,459	
Total shareholders' equity	1,538,288	1,245,926	
Total liabilities and shareholders' equity	\$ 2,009,280	\$ 1,668,667	

### ASSETS

What does the company own?

### LIABILITIES

What does the company owe others?

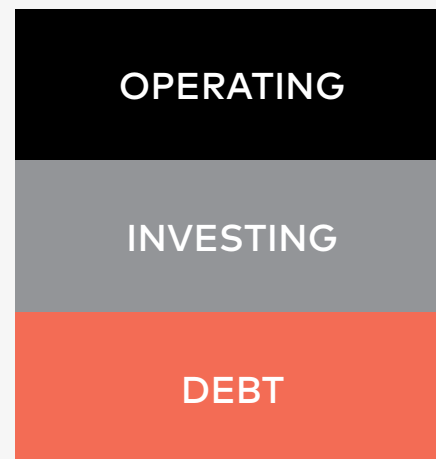
### SHAREHOLDER EQUITY

What do shareholders own?



*Cash is the lifeblood of your business.  
The **statement of cash flow** tells you how much  
free cash you can spend.*

## CASH FLOW

**Operations:**

How much cash have you generated from your core operations?

**Investing:**

How much have you generated from other activities?

**Debt:**

How much have you borrowed to help operations?



EXAMPLE:

**CHIPOTLE MEXICAN GRILL, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

		Years ended December 31		
		2013	2012	2011
	<b>Operating activities</b>			
	Net income .....	\$ 327,438	\$ 278,000	\$ 214,945
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization .....	96,054	84,130	74,938
	Deferred income tax provision (benefit) .....	2,103	(18,057)	11,935
	Loss on disposal of assets .....	6,751	5,027	5,806
	Bad debt allowance .....	19	1,046	239
	Stock-based compensation expense .....	63,657	64,276	41,382
	Excess tax benefit on stock-based compensation .....	(38,379)	(73,210)	(38,786)
	Other .....	507	522	2,501
	Changes in operating assets and liabilities:			
	Accounts receivable .....	(7,238)	(9,438)	(2,970)
	Inventory .....	(1,950)	(2,180)	(1,816)
	Prepaid expenses and other current assets .....	(6,806)	(5,954)	(5,399)
	Other assets .....	(1,354)	(20,539)	(7,350)
	Accounts payable .....	2,052	7,849	9,432
	Accrued liabilities .....	12,020	21,307	17,451
	Income tax payable/receivable .....	44,334	59,357	66,555
	Deferred rent .....	25,715	23,765	19,624
	Other long-term liabilities .....	3,857	4,062	2,609
	Net cash provided by operating activities .....	528,780	419,963	411,096
	<b>Investing activities</b>			
	Purchases of leasehold improvements, property and equipment .....	(199,926)	(197,037)	(151,147)
	Acquisition of interests in equity method investment .....	—	—	(586)
	Purchases of investments .....	(387,639)	(213,462)	(183,251)
	Maturities of investments .....	159,250	55,000	124,766
	Net cash used in investing activities .....	(428,315)	(355,499)	(210,218)
	<b>Financing activities</b>			
	Acquisition of treasury stock .....	(138,903)	(217,092)	(63,508)
	Proceeds from employee stock plan transactions .....	316	481	574
	Excess tax benefit on stock-based compensation .....	38,379	73,210	38,786
	Other financing payments .....	(143)	(133)	(120)
	Net cash used in financing activities .....	(100,351)	(143,534)	(24,268)
	Effect of exchange rate changes on cash and cash equivalents .....	536	380	(205)
	Net change in cash and cash equivalents .....	650	(78,690)	176,405
	Cash and cash equivalents at beginning of period .....	322,553	401,243	224,838
	Cash and cash equivalents at end of period .....	\$ 323,203	\$ 322,553	\$ 401,243
	<b>Supplemental disclosures of cash flow information</b>			
	Income taxes paid .....	\$ 160,973	\$ 138,385	\$ 56,270
	Increase (decrease) in purchases of leasehold improvements, property and equipment accrued in accounts payable .....	\$ (1,736)	\$ 4,455	\$ 3,249

**CASH FLOW**

**FROM OPERATIONS**

*How much you have generated from core operations*

**CASH FLOW**

**FROM INVESTMENTS**

*How much you have generated from other activities*

**CASH FLOW**

**FROM DEBT / FINANCING**

*How much you have borrowed to help operations*



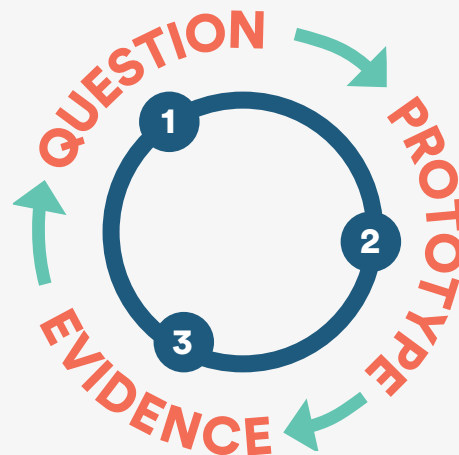
# LET'S DO!

Now that you've learned more, take a shot at answering these questions:

How much money are you making? / What are your costs? / What,  
is your profit? / How much of your company do you own? / How  
much cash do you have to spend?

**FOR QUESTIONS YOU STILL NEED  
TO ANSWER OR ASSUMPTIONS YOU  
NEED TO PROVE,**

- What will you make / prototype?
- What evidence can you get?





# WHAT'S NEXT?

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## DO

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### P&L / INCOME STATEMENT

*How much money are you earning, spending, and keeping in running your venture?*

### CASH FLOW MAP

*What are the major inflows and outflows of cash in your business?*

### CAPTURING VALUE: PRICING & REVENUE

*What are the ways in which your venture could make money, or earn income?*

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## LEARN

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### BUSINESS MODEL

CREATING, DELIVERING  
AND CAPTURING VALUE

*How do your business model and financial statements reflect each other?*

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## Other Resources

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 GLOSSARY

### FINANCIAL STATEMENT TERMS

BY ENTREPRENEUR.COM

*A reference tool for financial statement and accounting terms.*

 METHOD ARTICLE

### THE 10 MOST IMPORTANT METRICS IN A STARTUP'S FINANCIAL STATEMENTS

BY TOMASZ TUNGUZ

*A deeper look at the story your financial statements can tell.*